




*City of Bristol*  
**BRISTOL, CONNECTICUT 06010**

**To:** All Departments  
**From:** Roger D. Rousseau, Purchasing Agent   
**Date:** December 4, 2014  
**Subject:** Economic Forecast - Fiscal Year 2015-2016

In an effort to assist you in preparations of budgetary projections for the fiscal year July 2015 through June 2016, I have prepared comments addressing cost projections and an assessment of market conditions for items relevant to your budgets. Please note that these comments are projections only; substantial shifts in market conditions will be reported to you as necessary, separately from the budget process.

Pricing for fuels is partially driven by available supplies, and there are a number of factors that continue to cause variability within the markets. The cost of crude oil, costing roughly \$95.00 per barrel in October 2013, has dropped to roughly \$80.00 per barrel. EIA anticipates that average household heating expenditures will decrease over last year for heating oil, predicated on costs associated with new sources, refining operations, consumption, as well as market conditions. Continued instability in the Middle East and other oil-producing regions makes forecast of supplies difficult for the foreseeable future; however, overall proportional increases to level of fuels supplied domestically has significantly stabilized the costs for energy.

I look forward to hearing your comments relative to this report, and providing any other assistance you may need in the preparation of your budgets.

**Fuel Oil**

The City of Bristol, the Water Department, and the Board of Education jointly consume approximately 275,000 gallons of #2 fuel oil annually. For the period through June 30, 2015, the City of Bristol has fixed pricing for #2 fuel oil at a cost of \$3.0323 per gallon; adding federal charges for LUST and NORA fund contributions, and the Federal Spill fee (Connecticut Gross Receipts Tax and other state taxes are not applicable to this commodity) means a net cost of \$3.0372 per gallon. Currently, future supplies of fuel oil are listed on futures markets at \$2.2655 for January 2016 and \$2.2616 for March 2016 for suppliers; annualized pricing is typically set with emphasis on futures for markets within the winter months.

In preparing for budgetary requirements, departments should assume an average cost per gallon of **\$2.45** inclusive of all charges.

### **Gasoline**

The City, Board of Education, and Water Department jointly use approximately 125,000 gallons of gasoline annually. The net cost for this commodity through December 2014, inclusive of LUST Fund contributions, Federal Spill fee, and state Gross Receipts tax is \$3.0902 per gallon (the City has collectively locked in a commodity only price of \$2.8374 for this period).

Please note that the above cost is indicative of current pricing only; the petroleum market experienced significant recent changes for the coming twelve month term of January 2015 through December 2015. Future cost models show adjusted costs (commodity only) for July 2015 through June 2016 to be in the range of \$2.12. For budget purposes, a rate of **\$2.50** should be accommodated for the year, assuming that current modeling will be adjusted in Spring 2015.

### **Diesel Fuel**

The City, Board of Education, and Water Department jointly use roughly 315,000 gallons of diesel fuel on an annual basis. The current committed cost per gallon is \$2.9848 through June 2015. This amount is inclusive of LUST Fund Contributions, NORA, and the Federal Spill Fee.

Diesel fuel costs typically follow indices for heating fuel, with costs somewhat higher for diesel. Budgets should plan to accommodate a per gallon cost of **\$2.48** inclusive of federal charges for LUST Fund contributions and NORA Fund contributions. Supply costs for this commodity are expected to be finalized in March 2015; pricing will be provided to the Board of Finance and using departments upon finalization.

### **Natural Gas**

The City of Bristol has, for several years, participated in a contract governed by the CT Region Council of Governments ("CRCOG"), to obtain favorable pricing by consolidating volumes with other municipalities. Bristol's annual consumption of this commodity has been approximately 500,000 ccf, with the Board of Education accounting for roughly two thirds of said consumption. Due to significant changes in the natural gas market, the municipalities within CRCOG have elected to temporarily purchase natural gas directly through Yankee Gas, for the period through June 2016.

It is expected that the net effect of purchasing natural gas through Yankee Gas will be no change in overall cost to end users.

As a clarification to applicable pricing costs, the costs cited are the commodity costs per one hundred cubic feet ("ccf"). There are several components to the cost of natural gas, generally classified as either (1) commodity costs or (2) distribution costs. The deregulation of the natural gas market affected the ability to purchase the commodity; however, the distribution costs are governed by the DPUC via publications for Rate 30. The portion of cost relative to distribution can vary from as little as 10% in peak months to as much as 30% in off-peak months, with an assumption of an 18% average. In accordance with DPUC guidelines, demand capacity for distribution is based on the highest single day consumption in the months from November through March. These charges are in excess of the commodity costs, and are not a component of the "per ccf" pricing.

### **Electricity**

The City purchases electric generation through participation in a contract governed by the Capitol Region Council of Governments ("CRCOG"), with fixed pricing of **7.587** cents per kWh, for the period through December 2016, inclusive of administrative fees incurred by CRCOG.

The Board of Education has a contract separate from the City, through participation in a contract governed by the Capitol Region Education Council ("CREC") with Integrys; the rate is **9.53** cents per kWh.

Please note that the cost per kWh is for the cost of electricity generation only; distribution costs are independent of the generation charges and are subject to rates established by DPUC. Generation and distribution costs are expected to represent 60% and 40% of the cost respectively for electricity.

The City's representative from CL&P has indicated that there may be an application for a rate increase for these charges.

### **Transportation**

The Bristol Board of Education has a contract for student transportation services with First Student Transportation through June 2017. The contract accommodates an increase for the coming fiscal year of **2.5%** above the rates charged for runs made in the fiscal year July 2014 through June 2015.

This contract is for the transportation service only; a component of the transportation budget is the cost of diesel fuel, purchased by the BOE for use by the contractor. This cost is addressed separately in a previous section.

### **Bituminous Materials**

Pricing for bituminous materials typically follows the price trends of crude oil production; other factors include the supplier base for liquid asphalt, as well as non-petroleum related trucking costs.

### **Tires**

Pricing for tires is based on the cost of crude oil, which is expected to stabilize for the coming year. Economic forecasting data as supplied by the Department of Energy shows an expected adjustment of 1.5%.

### **Communications Services**

The City of Bristol has fixed rates for long distance services, covering both interstate and intrastate rates. The City of Bristol does not expect to see dramatic unit cost increases for these services for the approaching fiscal year. The deployment of fiber optic connectivity between municipal buildings, combined with scheduled implementation of "Voice Over Internet Protocol" (VoIP) telephone systems, will provide an overall lower cost for such services.

**Postage**

There are no known rate adjustments for mailing services from the U.S. Postal Service in January 2015. Other associated postal costs (e.g. carrier services) are additionally expected to increase by 1.6% (equal to the rate of inflation as published by the Postal Regulatory Commission).

**Office Supplies**

The current market for paper products is stable due to ample supply of available production material; budgets should reflect a 1.0% upward adjustment for the coming fiscal year.

**Clothing and Uniforms**

The Bureau of Labor Statistics has reported in its CPI guideline an increase of 0.7% for the twelve month period ended October 2014. This trend is expected to continue for the foreseeable future.

**Food Items**

According to the CPI-U index as published by the Bureau of Labor Statistics, food costs have increased 3.1% for the last twelve month term ended October 2014; budget preparations should consider the extension of this trend.

**Sources:**

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